

Industry
Bloomberg
BSE CODE

TECHNOLOGY
TCS IN
532540

RATING	NEUTRAL
CMP	2218
Price Target	2231
Potential Upside	1%

Rating Change	↔
Estimate Change	↔
Target Change	↑

STOCK INFO	
52wk Range H/L	2296/1871
Mkt Capital (Rs Cr)	832298
Free float (%)	26%
Avg. Vol 1M (000)	123
No. of Shares (Crs)	375
Promoters Pledged (Crs)	0

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
Net Sales	146,463	157,582	171,198
EBITDA	39,506	42,373	46,770
EBIT	37,450	38,898	43,257
PAT	31,562	32,971	36,406
EPS (Rs)	84.1	87.8	97.0
EPS growth (%)	24%	4%	10%
ROE (%)	36%	35%	34%
ROCE (%)	41%	39%	39%
BV	238	269	309
P/B (X)	8	8	7
P/E (x)	24	25	23

RESEARCH ANALYST

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Strong execution in 3Q, BFSI turnaround expected in medium terms

3QFY20 Result update

- TCS reported mix set of numbers in 3QFY20 result .Revenue came at USD 5586 million, a growth of 6.8% YoY in cc term (in line with our estimates) mainly impacted by seasonality and continued weakness in BFSI and retail.
- EBIT during the quarter came at Rs 9974 crore , a growth of 4.3%YoY.Ebit margin for quarter was at 25%, surpassing our estimates of 24.5%.The 100bps margin expansion was attributable by improved utilization and some support from currency.
- PAT stood at Rs 8143 crore, a growth of 0.3% primarily led by margin beat .
- In 3Q, the company saw a strong client addition across the buckets .The company added 2 more client in USD 100million + band bringing the total to 47; 3 more client were added in USD50million + band bringing it to 102; 21/25/ 38 clients were added in 20million band /10million/5million and 1million band taking the total to 232/395/1053.

Sectoral trends continued in 3Q , Optimism for medium term

- In BFSI, the trend of 1HFY20 continued in 3Q, Demand trends were mixed .The company witnessed tightening of spend among the large banks in North America and UK. Also, furloughs in some accounts further impacted 3Q .Thus resulting in overall growth of 5.3%YoY in cc terms .Growth in retail was 5.1%YoY in cc terms. Life science & Healthcare and communication remained strong and grew 17.1%/9.5%YoY in cc terms. Manufacturing grew 9.2%YoY while Technology & Services remained soft and grew 3.3%YoY.
- Geography wise,Europe continued to outperform for the company by growing15.9%YoY While UK on hand decelerated sharply in the quarter due to Brexit anxieties. BFSI and retail headwinds also caused deceleration of US which grew4.1%YoY. India, Asia Pacific and MEA posted a moderate growth of 6.4% 5.7%/ 10.8% YoY in cc terms.
- In short term the resultant deflation is pulling down TCS growth in BFSI and Retail vertical. However the management is confident of both the verticals to pick up in medium term.

Continued traction in deal wins

The company showed continued traction in deal wins. The order book for the quarter came at USD6 billion, of this North America accounted for USD3.3billion;BFSI from USD1.3billion and Retail order book was at USD860million.Deal pipeline remains strong taking the TCV wins to USD18 billion for 9MFY20 (up 22%YoY).

View and valuation

TCS from the beginning of the year has been struggling with macros and client specifics issue which has been dented the FY20 growth outlook and 3Q was no different .The sectoral trends of the first half continue to play out in 3Q, resulting in overall FY20 revenue growth to come below FY19 growth. Going forward, we expect 4Q to see some sequential growth however weakness in some pockets of BFSI will continue to remain overhang for the company in next few quarters. We have built FY21 estimates better for the company both on revenue and margin front mainly due to momentum in deal win(TCV wins was USD18 billion for 9MFY20), Recovery in BFSI and continue improvement in employees pyramid .Also deploying 30000 employees in just a short time will help the management to aggressively captured the demand .

However, despite considering optimistic outlook for medium term, we have largely kept our estimates unchanged as near term challenges in BFSI &retail and also Trade war related environment cannot be overlooked .Thus we maintain Neutral stance on the stock with the target price of Rs2231.

Key Risks to our rating and target

- Slow down in TCV wins
- Slower than expected turnaround in BFSI vertical.

3QFY20 Results

Mixed quarter

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	37,338	38,010	38,172	38,977	39,854	6.7%	2.3%	146463	157582	7.6%
Other Income	1,163	1,193	1,675	1,361	818	-29.7%	-39.9%	4,311	5,071	17.6%
Employee Exp	19,994	20,179	20,809	21,470	21,622	8.1%	0.7%	78,246	85,814	9.7%
Other Expenses	7,261	7,757	7,326	7,282	7,361	1.4%	1.1%	26,441	29,395	11.2%
EBITDA	10,083	10,074	10,037	10,225	10,871	7.8%	6.3%	39506	42373	7.3%
Depreciation	519	537	817	864	897	72.8%	3.8%	2,056	3,475	69.0%
EBIT	9,564	9,537	9,220	9,361	9,974	4.3%	6.5%	37,450	38,898	3.9%
Interest	16	28	257	193	223		15.5%	198	896	352.5%
PBT	10,711	10,702	10,638	10,529	10,569	-1.3%	0.4%	41,563	43,074	3.6%
Tax	2,590	2,550	2,485	2,471	2,426	-6.3%	-1.8%	10,001	10,103	1.0%
PAT	8,121	8,152	8,153	8,058	8,143	0.3%	1.1%	31,562	32,971	4.5%

Concall Highlights

Segmental performance:

- In BFSI, the trend of 1HFY20 continued in 3Q, Demand trends were mixed .The company witnessed tightening of spend among the large banks in North America and UK. Furloughs in some accounts further impacted 3Q however some positive growth came from Europe and Insurance sub vertical grew well. Thus resulting overall growth of 5.3%YoY.
- Retail: Traditionally a subdued quarter for Retail in terms technology investment .Growth in 3Q was 5.1%YoY in cc terms.
- Life science and Healthcare: This segment saw a strong quarter with growth accelerating to 17.1%YoY.Domain knowledge , intellectual property and power to bring digital technology across the chain has resulted in winning many transformational deal for TCS.
- Communication and media: Continues to do well for the company, grew 9.5%YoY during the quarter .Demand driver were mainly been Digital investment in analytics and customer experience.
- **Geography performance:** Europe continued to outperform for the company While UK on hand decelerated sharply in the quarter due to Brexit anxieties. BFSI and retail headwinds also caused deceleration of US
- **Product and platform:** Ignio has 10 new wins and 7 go live during the quarter .Ignio channel partner is also progressing well with 2 new partners on board this quarter bringing the total number to 6.TCS banc has 6new wins and 8 go lives in 3Q.Out of 6 wins , 2 wins were in asset services platform and rest 4 wins were in areas of core banking , securities trading and securities processing.
- **Client metrics:** In 3Q, the company saw a strong client addition across the buckets .The company 2 more client in USD 100million + band bring the total to 47; 3 more client were added in USD50million + band bring it to 102; 21/25/ 38 clients were added in 20million band /10million/5million and 1million band taking the total to 232/395/1053.
- **Margin performance:** The Company focused on execution in 3Q.With improved utilization and some support from currency, the company managed to expand the operating margin by 100 bps sequentially to 25% in 3Q. Going ahead Currency can be a headwind while expanding the base of the pyramid to sort of moderate intake at the mid level and hire fresher's ongoing basis will benefit the margins .Also higher growth will also play as significant benefit to the margins.
- **Headcount:** After the highest ever addition done by the company in 2Q, Hiring moderated in 3Q.The total headcount now stands at 446675.The company has on boarded 30000 employees in 1HFY20 from national organized test , out of which 93% of trainees have been deployed on projects in 3Q. The company will continue to expand the base with more fresher in medium term to reengineer the cost structure and expect to return to favored margins .The Company will continue to spend in up skilling middle level.
- **Order book:** The company's order book for the quarter was at USD6 billion, of this North America accounted for USD3.3billion;BFSI from USD1.3billion and Retail order book was at USD860million.Deal pipeline remains strong taking the TCV wins to USD18 billion for 9MFY20 (up 22%YoY).

- **Optimistic in Demand environment:** The Company sees deceleration in BFSI and retail as short term phenomena and continues to see strong secular demand for services in the medium and long term .The Company is not seeing shrieking of the budget in BFSI space.
- In BFSI, the company is closely monitoring to the BFSI service vertical where they saw some tightening of budget from the business of the year.
- Despite that the company saw strong deal closures distributed across verticals and geography. The new deals ramps up were on time and delivering expected revenue. **This quarter the company closed USD1.8 billion TCV bring total BFSI TCV to USD6 million.20 new logos added in BFSI.**
- In sub vertical , insurance remain strong , after soft beginning in BFS in continental Europe 3Q covered quite strongly , BFS also continues to grow well in Australia so the revenues from smaller bank in North America. Headwinds continue in about few of the large banks across North America and UK. However with continued focus the company is winning market share.
- In short term the resultant deflation is pulling down TCS growth in BFSI. However in 7 quarter, TCS BFSI grew materially, expanded 200 percentage point relative to market share of top 6 provider which gives confident of well position of TCS to continue to participate in the demand turnaround in medium to long term.
- In retail vertical , the company is growing substantially in UK and Europe , in Sub vertical , CPG , consumer products and travel transportation &hospitality etc are grow extremely well for TCS. Headwinds are coming from large retailers In US (some going through financial stress) .The Company is confident of headwinds bottoming out soon .Momentum will sustainable for growth in UK and Europe.
- Thus management expects both the vertical pick up in medium term.

Revenues by Business Segments

BFSI AND RETAIL REMAINED SOFT YOY									
VERTICALS (USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YOY%	YoY% cc
BFSI	1,571	1,627	1,617	1,668	1,689	1,710	1,698	5.0%	5.3%
Retail and consumers	778	803	814	815	823	817	849	4.3%	5.1%
Comm,Media&technology	359	355	362	367	378	386	391	7.9%	9.5%
Manufacturing	515	511	515	518	538	541	559	8.6%	9.2%
Life sciences	369	391	399	416	433	447	464	16.2%	17.1%
Technology &Services	455	464	457	464	483	480	469	2.7%	3.3%
Regional market	1,005	1,064	1,087	1,150	1,141	1,137	1,156	6.4%	5.7%

Revenues by Client Geography

CONTINENTAL EUROPE REMAINED SOLID WHILE US GROWTH DECELERATED									
GEOGRAPHY(USD MN)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YOY%	YoY% cc
North America	2,576	2,707	2,688	2,736	2,775	2,792	2,799	4.1%	4.1%
Latin america	96	115	105	108	99	105	106	1.1%	1.3%
UK	783	730	814	858	867	861	888	9.1%	7.5%
Continetal Europe	707	699	740	761	784	805	832	12.4%	15.9%
India	293	329	299	313	329	314	318	6.4%	6.4%
Asia Pacific	485	511	494	513	516	519	519	5.3%	5.7%
MEA	111	125	110	108	115	121	123	11.5%	10.8%

Exhibit: Revenue trend

Continued challenges in BFS and Retail dragged the overall revenue.

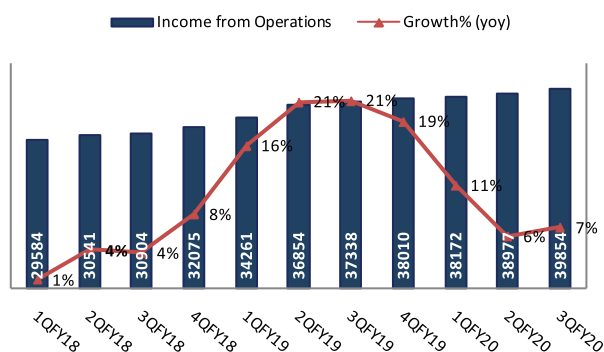


Exhibit: Deal wins

Traction continued in TCV wins

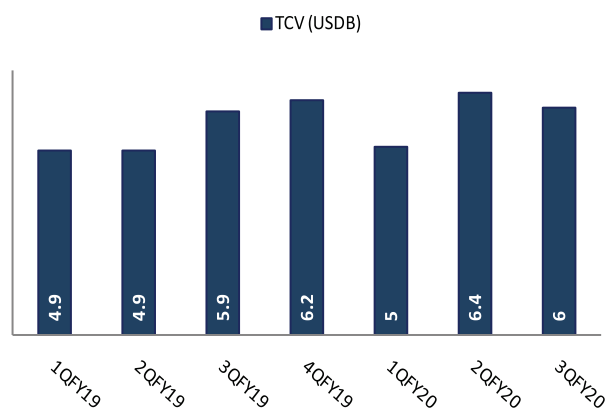


Exhibit: Margin Trend

Margins improved due to better execution, FY20 Margins to be below aspirational range of 26% to 28%.

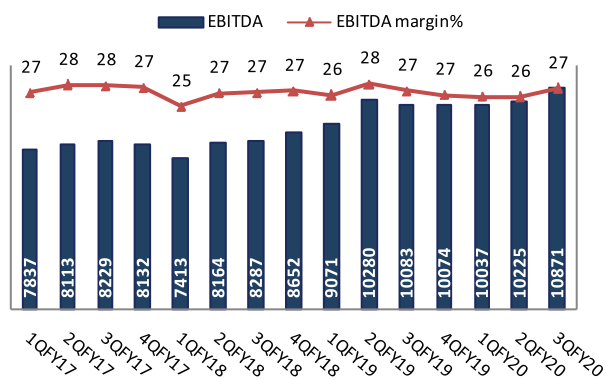


Exhibit: Attrition Trend

Attrition still remain under control.

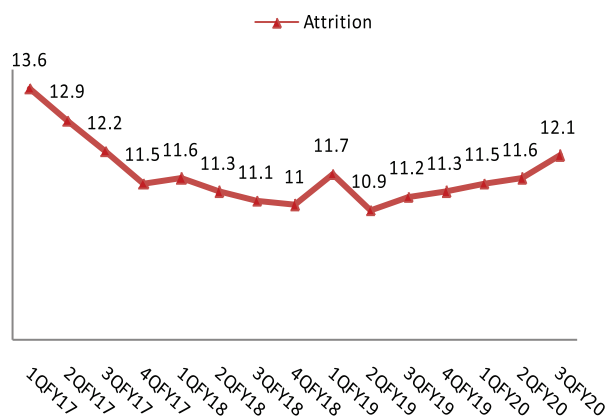
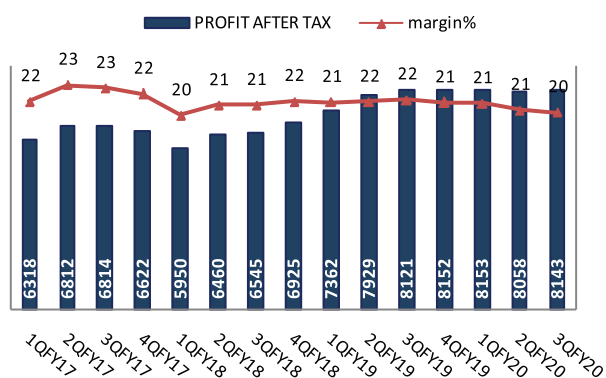


Exhibit: PAT and PAT margin

Better execution led to better pat margin .



Operational Details

GEOGRAPHY %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
North America	50.2	51	51.9	51.2	50.7	50.6	50.6	50.1
Latin America	2	1.9	2.2	2	2	1.8	1.9	1.9
UK	15.2	15.5	14	15.5	15.9	15.8	15.6	15.9
Continental Europe	14.2	14	13.4	14.1	14.1	14.3	14.6	14.9
India	6.2	5.8	6.3	5.7	5.8	6	5.7	5.7
Asia Pacific	9.7	9.6	9.8	9.4	9.5	9.4	9.4	9.3
MEA	2.5	2.2	2.4	2.1	2	2.1	2.2	2.2

CLIENTS CONTRIBUTION	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
US\$ 1m+ Clients	963	978	989	996	1008	1014	1032	1053
US\$ 5m+ Clients	495	508	513	519	532	551	554	557
US\$ 10m+ Clients	350	355	365	370	371	384	398	395
US\$ 20m+ Clients	207	206	213	211	215	219	225	232
US\$ 50m+ Clients	97	97	98	99	99	100	101	102
US\$ 100m+ Clients	38	40	44	45	44	44	47	47

IP REVENUE (%)	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
BFSI	31.1	31.1	31.2	30.8	30.9	30.8	31	30.4
Retail & CPG	16.6	15.4	15.4	15.5	15.1	15	14.8	15.2
Communication & Media	7.1	7.1	6.8	6.9	6.8	6.9	7	7
Manufacturing	7.4	10.2	9.8	9.8	9.6	9.8	9.8	10
Life Sciences & Healthcare	7.2	7.3	7.5	7.6	7.7	7.9	8.1	8.3
Technology & Services	7.8	9	8.9	8.7	8.6	8.8	8.7	8.4
Regional Markets & Others	18	19.9	20.4	20.7	21.3	20.8	20.6	20.7

TOTAL EMPLOYEE BASE	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Total Employee	394998	400875	411102	417929	424285	436641	450738	446675
Gross Employee	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net Additions	4118	5877	10227	6827	6356	12356	14097	-4063

ATTRITION	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Attrition	11	11.7	10.9	11.2	11.3	11.5	11.6	12.2

CURRENCY	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
USD	64.51	67.83	70.67	71.12	70.43	69.6	70.65	71.35
GBP	90.51	90.95	92.29	90.84	92.37	88.77	86.3	92.91
GBP	79.74	79.77	82.56	81.31	79.64	78.28	78.07	79.03

Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	195.87	195.87	197	197	191	375.29	375.29	375.29
Reserves	48999	50439	70875	86017	84937	89071	100672	115708
Networth	49195	50635	71072	86214	85128	89446	101047	116084
Debt	254.35	299.83	196	271	235	44	44	44
Minority interest	707.99	1127.8	355	366	402	453	453	453
Other Non Current Liab	1437	1466	2017	2089	2884	2916	2916	2916
Total Capital Employed	51595	53528	73640	88940	88649	92860	104461	119497
Net Fixed Assets (incl CWIP)	10444	12311	11775	11645	11506	11553	10509	10451
Non Current Investments	2275.3	169.18	343	344	301	239.58	239.58	239.58
Non Current Assets	11521	12367	13765	10737	13265	11020	11020	11020
unbilled revenue	4005.6	3827.1	3992	5351	6686	5157	5548.5	6027.9
Inventory	15.21	16.07	16	21	26	10	10.759	0
Debtors	18230	20438	24073	22684	24943	27346	29422	31964
Cash & Bank	14442	18556	6295	3597	4883	7224	7220.1	11876
Current investments	1158.5	1492.6	22479	41636	35707	29091	39537	47290
Short-term loans and advances	4310.8	4146.5	2743	2909	3205	8029	8029	8029
Other Curr Assets	735.36	336.82	3615	4328	5774	15274	15732	16292
Current Assets	42898	48813	63213	80526	81224	92131	105499	121480
Creditors	5536	8830.9	7541	6279	5094	6292	6,770	7,355
Provisions	6386	7655.2	115	66	240	239	239	239
Other Curr Liab	3621.2	3646.6	7800	7967	12313	15553	15799	16099
Curr Liabilities	15543	20133	15456	14312	17647	22084	22807	23693
Net Current Assets	27354	28680	47757	66214	63577	70047	82692	97787
Total Assets	67138	73661	89096	103252	106296	114944	127268	143190

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	81809	94648	108646	117966	123104	146463	157582	171198
Change (%)	30%	16%	15%	9%	4%	19%	8%	9%
EBITDA	25,153	24,482	30,590	32,311	32,516	39,506	42,373	46,770
Change (%)	39%	-3%	25%	6%	1%	21%	7%	10%
Margin (%)	31%	26%	28%	27%	26%	27%	27%	27%
Depr & Amor.	1,349	1,799	1,948	1,987	2,014	2,056	3,475	3,513
EBIT	23,804	22,683	28,642	30,324	30,502	37,450	38,898	43,257
Int. & other fin. Cost	39	104	20	32	52	198	896	892
Other Income	1,637	3,230	3,054	4,221	3,642	4,311	5,071	5,225
EBT	25,402	25,809	31,676	34,513	34,092	41,563	43,074	47,590
Exp Item	-	(490)	-	-	-	-	-	-
Tax	6,070	6,239	7,301	8,156	8,212	10,001	10,103	11,184
Minority Int & P/L share of Ass.	(168)	(208)	83	-	-	-	-	-
Reported PAT	19,164	19,852	24,292	26,357	25,880	31,562	32,971	36,406
Change (%)	38%	4%	22%	9%	-2%	22%	4%	10%
Margin(%)	23%	21%	22%	22%	21%	22%	21%	21%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	44%	40%	40%	34%	30%	36%	35%	34%
ROCE	52%	43%	45%	37%	34%	41%	39%	39%
Asset Turnover	9	8	9	10	11	13	14	16
Current Ratio	3	2	4.1	5.6	4.6	4.2	4.6	5.1
Debtor Days	81	79	81	70	74	68	68	68
Book Value Per Share	130	134	180	219	222	238	269	309
Payable Days	25	34	25	19	15	16	16	16
Earnings Per Share	49	51	62	67	68	84	88	97
P/E	22	25	20	18	21	24	25	23
Price / Book Value	8	9	7	6	6	8	8	7
EV/EBITDA	16	20	16	15	17	19	19	18
EV/Sales	5	5	5	4	4	5	5	5

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	25402	26298	31676	26357	25880	31562	43074	47590
(inc)/Dec in Working Capital	-3451	747.22	-4824	-631	-209	-2169	-2203	-2686
Non Cash Op Exp	-156	-195.2	-168	7443	7005	9158	3475	3512.7
Int Paid (+)								
Tax Paid	-7044	-7482	-7569	-7946	-7609	-9958	-10103	-11184
others	0	0	0	0	0	0	0	0
CF from Op. Activities	14751	19369	19115	25223	25067	28593	34243	37233
(inc)/Dec in FA & CWIP	-2949	-2047	-1990	-1862	-2053	-2053	-2431	-3454
Free Cashflow	11802	17322	17125	23361	23014	26540	31812	33779
(Pur)/Sale of Inv	0	0	0	-121423	-97473	-96751	-10446	-7753
others	-6541	1247.9	-3162	106681	102221	100351	0	0
CF from Inv. Activities	-9667	-1701	-5209	-16732	2886	1596	-12877	-11207
inc/(dec) in NW	0	0	0	0	0	0	0	0
inc/(dec) in Debt	8.44	43.41	-72.6	87	-43	-181	0	0
Int. Paid	-38.06	-105	-20.16	-20	-40	-186	0	0
Div Paid (inc tax)	-5480	-17020	-9479	-10947	-10726	-11424	-21370	-21370
others	-163.6	-85.58	-44.17	-146	0	0	0	0
CF from Fin. Activities	-5673	-17168	-9616	-11026	-10809	-11791	-21370	-21370
Inc(Dec) in Cash	-588.9	499.85	4290.7	-2535	1068	2292	-3.898	4656.3
Add: Opening Balance	2056.8	1362	2001.4	6132	3815	4883	7224	7220.1
Closing Balance	1467.9	1861.9	6292.1	3597	4883	7224	7220	11876

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